

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 30, 2004



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

April 30, 2004

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2003 Taxes for Graves County Sheriff as of April 30, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$7,285,086 for the districts for 2003 taxes, retaining commissions of \$300,650 to operate the Sheriff's office. The Sheriff distributed taxes of \$6,961,708 to the districts for 2003 Taxes. Taxes of \$17,555 are due to the districts from the Sheriff and refunds of \$268 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$340,518 To Protect Deposits
- The Sheriff Should Turn Delinquent, Uncollected Franchise Tax Bills Over To The County Clerk
- The Sheriff's Office Lacks Adequate Segregation Of Duties

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the Graves County Sheriff's Settlement - 2003 Taxes as of April 30, 2004. This tax settlement is the responsibility of the Graves County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Graves County Sheriff's taxes charged, credited, and paid as of April 30, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 12, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$340,518 To Protect Deposits
- The Sheriff Should Turn Delinquent, Uncollected Franchise Tax Bills Over To The County Clerk
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 12, 2005

GRAVES COUNTY
JOHN DAVIS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

April 30, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 828,551	\$ 913,948	\$ 2,481,578	\$ 1,240,392
Tangible Personal Property	110,210	108,741	308,541	425,742
Intangible Personal Property				148,958
Fire Protection	694			
Omitted Taxes	104	107	399	155
Franchise Corporation	120,666	142,062	335,375	
Additional Billings	1,141	1,938	3,402	1,741
Volunteer Fire Dues		423,880		
Clay Reserves	206	213	790	307
Bank Franchises	97,311			
Penalties	6,610	11,827	20,066	10,714
Adjusted to Sheriff's Receipt	(964)	(970)	(1)	(3,663)
Gross Chargeable to Sheriff	<u>\$ 1,164,529</u>	<u>\$ 1,601,746</u>	<u>\$ 3,150,150</u>	<u>\$ 1,824,346</u>
<u>Credits</u>				
Exonerations	\$ 3,862	\$ 11,137	\$ 12,719	\$ 7,025
Discounts	15,967	20,770	41,590	28,140
Delinquents:				
Real Estate	19,475	20,938	56,963	29,099
Tangible Personal Property	1,140	1,125	2,407	3,257
Intangible Personal Property				4,693
Additional Billings	122	124	195	189
Fire Dues		19,480		
Uncollected Franchise	29,283	38,688	87,297	
Total Credits	<u>\$ 69,849</u>	<u>\$ 112,262</u>	<u>\$ 201,171</u>	<u>\$ 72,403</u>
Taxes Collected	\$ 1,094,680	\$ 1,489,484	\$ 2,948,979	\$ 1,751,943
Less: Commissions *	<u>46,812</u>	<u>61,134</u>	<u>117,959</u>	<u>74,745</u>
Taxes Due	\$ 1,047,868	\$ 1,428,350	\$ 2,831,020	\$ 1,677,198
Taxes Paid	1,044,160	1,423,705	2,817,864	1,675,979
Refunds (Current and Prior Year)	<u>794</u>	<u>1,284</u>	<u>2,106</u>	<u>1,257</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 2,914</u>	<u>\$ 3,361</u>	<u>\$ 11,050</u>	<u>\$ (38)</u>

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN DAVIS, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2003 TAXES
 April 30, 2004
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	3,892,580
4% on	\$	3,346,333
1% on	\$	36,173

** Special Taxing Districts:

Library District	\$	1,192
Health District		1,044
JU Kevil		627
Watershed District #1		299
Watershed District #2		268
Symsonia Fire		1
Rescue Squad		160
Sedalia Volunteer Fire Department		(38)
Water Valley Volunteer Fire Department		(114)
Wingo Volunteer Fire Department		<u>(78)</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>3,361</u></u>
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GRAVES COUNTY
JOHN DAVIS, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

April 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 30, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$340,518 of public funds uninsured and unsecured.

GRAVES COUNTY
 JOHN DAVIS, COUNTY SHERIFF
 NOTES TO THE FINANCIAL STATEMENT
 April 30, 2004
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 30, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	3,144,482
Uncollateralized and uninsured	<u>340,518</u>
Total	<u>\$ 3,585,000</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 9, 2003 through April 30, 2004.

Note 4. Interest Income

The Graves County Sheriff earned \$3,239 as interest income on 2003 taxes. As of August 12, 2005, the Sheriff is due \$256 in interest from the school district and owes \$446 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Graves County Sheriff collected \$36,398 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Fees

The Graves County Sheriff collected \$2,658 of advertising fees allowed by KRS 134.440(2). As of August 12, 2005, the Sheriff owes \$11 in advertising fees to his fee account.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2003 taxes, the Sheriff had \$5,467 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN DAVIS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 30, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$340,518 To Protect Deposits

On November 30, 2003, \$340,518 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response: We will meet with banking officials to remedy this problem.

The Sheriff Should Turn Delinquent, Uncollected Franchise Tax Bills Over To The County Clerk

During audit testing, we noted that delinquent franchise tax bills were not turned over to the County Clerk's Office. K.R.S. 134.450 (3) states "The Sheriff shall file all certificates of delinquency in the county clerk's office immediately upon completion of the tax sale..." We recommend the Sheriff comply with K.R.S. 134.450 (3) and turn all delinquent franchise tax bills over to the County Clerk.

Sheriff's Response: Will comply.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily collection report and daily cash sheet. Any differences should be reconciled. He could document this by initialing the bank deposit slip, daily collection report, and daily cash sheet.
- The Sheriff should compare the tax settlement to monthly reports and bank records for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the tax settlement.
- The Sheriff should periodically compare tax payments to monthly reports. The Sheriff could document this by initialing the monthly report.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: We will attempt to follow the above suggestions. The segregation of duties cannot be changed due to the above stated reasons.

GRAVES COUNTY
JOHN DAVIS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 30, 2004
(Continued)

PRIOR YEAR:

The Sheriff Should Have A Written Agreement To Protect Deposits

This comment was corrected in the current year.

The Sheriff Should Turn Delinquent, Uncollected Franchise Tax Bills Over To The County Clerk

This comment was not corrected and is repeated in this year's audit.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Graves County Sheriff's Settlement - 2003 Taxes as of April 30, 2004, and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's Settlement - 2003 Taxes as of April 30, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$340,518 To Protect Deposits
- The Sheriff Should Turn Delinquent, Uncollected Franchise Tax Bills Over To The County Clerk

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 12, 2005

